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**BOWLES TESTIFIES ON BENEFITS OF AUCTIONS
IN EMISSIONS CAP-AND-TRADE PROGRAM**

Urges House Select Committee to capture value of emissions allowances to help states promote efficiency for consumer savings, fund investment in clean energy technology at federal level

WASHINGTON, D.C. – Energy and Environmental Affairs Secretary Ian Bowles today testified before the House Select Committee on Energy Independence and Global Warming, detailing Massachusetts's decision to auction all of its emissions allowances under the Regional Greenhouse Gas Initiative (RGGI) and use the proceeds to expand energy efficiency efforts to cut energy costs for consumers. In testimony before the Committee, chaired by U.S. Representative Edward Markey of Massachusetts, Bowles urged Congress to pursue the market-based cap-and-trade approach to greenhouse gas regulation at the federal level, using the proceeds of allowance auctions to fund state efficiency measures and support the development of clean energy technologies nationally.

“Market-based approaches to environmental protection encourage technology innovation and spur economic growth,” said Secretary Bowles. “We look forward to working with you and your colleagues to assist in developing a national system for curbing greenhouse gas emissions and growing a clean energy economy.”

Invited by the Committee to appear at a hearing entitled “Cap, Auction, and Trade: Auctions and Revenue Recycling Under Carbon Cap and Trade,” Secretary Bowles was asked to explain why Massachusetts chose to allocate RGGI emissions allowances primarily through auction rather than distribute them for free to power generators, how much revenue the Commonwealth expected to generate from the auctions, and to what extent Massachusetts would be able to offset any costs of RGGI – or even reduce energy costs overall – by investing those revenues in energy efficiency.

In testimony, Secretary Bowles explained that, in Massachusetts's deregulated electricity market, "the impact of emissions allowances on electricity prices is exactly the same whether allowances are sold at auction or given away for free," since power generators would take into account the trading price of allowances – which they could expend in order to generate electricity, save for a time when electricity prices are higher, or sell to another generator who needed the allowances for compliance – in determining the price at which it becomes economic for their plants to produce power. In that context, giving away allowances for free "could result in windfall profits for power generators, at the expense of business and residential customers," said Secretary Bowles.

"It is tempting to think that, if you make generators pay for the emissions they produce, it will drive electricity prices up, but if you give allowances away for free, it won't. But it's not true," Secretary Bowles told the Committee.

By auctioning the allowances, the Commonwealth expects to raise \$26 million to \$133 million, assuming allowance prices of \$1 to \$5 per ton of carbon dioxide, which can be used for the benefit of business and residential customers. At \$5 per ton, revenue would be sufficient to double Massachusetts's nationally recognized energy efficiency programs, currently \$125 million per year, which save customers roughly \$3 for every dollar invested. The investment of RGGI funds in energy conservation would complement the comprehensive energy legislation passed by the Massachusetts House of Representatives and Senate, which puts energy efficiency in competition with power generation to meet electricity demand at the lowest cost.

"In Massachusetts, our analysis of the ratepayer impacts of RGGI showed that spending auction proceeds on energy efficiency would result in small short-term costs but long-term savings," said Secretary Bowles, who estimated the savings at more than 5 percent annually. "Customers who get efficiency upgrades in lighting, air conditioning, production equipment, and appliances that use less electricity would save the most, but all consumers would save in the form of lower rates, as reduced demand takes pressure off capacity at times of peak usage."

Secretary Bowles urged the Committee to keep Massachusetts's experience in mind as Congress considers how to make use of revenues from a future federal carbon control program.

"While it is important that a federal program also give new financial incentives to develop new clean energy technologies, energy efficiency gives the greatest near term return for the ratepayers," said Secretary Bowles. "For the most part, energy efficiency programs don't lend themselves to federal administration and auction proceeds should return to the states provided they meet performance standards for efficiency."

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